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**FOREIGN POSITIONS ON
INTERNATIONAL MONETARY REFORM**

SUMMARY

There are no strong economic or political pressures on major capitals for early progress in the monetary reform negotiations. International money markets are much more stable than they were earlier this year, and international trade is expanding rapidly. The oil import problem may ultimately generate pressures for reform, but initially it will probably increase uncertainty and add to other nations' hesitancy about moving forward, even though they will be looking for opportunities to mend their fences with the United States and each other. Moreover, finance ministers generally recognize that their future political and personal prestige will depend much more on their success in curbing inflation and preventing too sharp a slowdown in their economies than on their performance in the reform negotiations.

Few signs of increased foreign flexibility on the fundamental adjustment and convertibility issues have appeared since the IMF meeting in Nairobi. Most capitals have publicly reiterated their opposition to US positions on these issues. On the other hand, there are signs of movement toward the US position on the SDR-aid link and on the role of gold in the monetary system.

France -- although by no means isolated in opposition to US views -- remains the United States' principal antagonist in the negotiations. Motivated more by political than by economic considerations, the French are determined to nurture an independent European identity and enhance French leadership in Europe, while ending the United States' special status in the international monetary system. Paris' basic orientation in the negotiations has probably been strengthened by its pique over exclusion from big power deliberations on the Middle East. Finance Minister Giscard D'Estaing's flexibility in the reform negotiations is constrained by French political realities. First, President Pompidou, as in other economic policy areas, will actively participate in the ultimate decisions. Second, Giscard's political opponents, especially among the Gaullists on the right, would be quick to exploit any sign that Giscard was willing to compromise significantly to reach agreement with the United States.

Other Community members will be more inclined to move toward US positions than Paris. To ease US-German strains resulting from the Middle East conflict, Bonn might lean toward greater accommodation to US views

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on monetary reform. In any case, the Germans clearly will seek to find acceptable compromises between US and French positions. Finance Minister Schmidt appears to have a freer rein in the reform negotiations than does Giscard.

As long as certain particular interests are served, the British and Italians will also be flexible in the negotiations. Both want assurances that floating will be recognized as a legitimate instrument of monetary policy. London is also concerned that satisfactory provision be made to deal with the overseas sterling balances. Rome wants to be recognized as a major participant in reform discussions and specifically does not want reform decisions mandated by the Big Five.

Like the Germans, British, and Italians, the Japanese would prefer not to appear intransigent in US eyes. They are more dependent than the Europeans on US economic and political ties and have less to lose by maintaining a distance from Paris. In the end, these factors are likely to outweigh Tokyo's goals of strengthening its bonds with Europe, despite a similarity of position with Paris on the issues of sovereignty over exchange rates and capital controls.

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